

Message Text

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USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 0848

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, IT, IMF

SUBJECT: OSSOLA COMMENTS ON ITALIAN BALANCE OF PAYMENES MATTEKGS

PASS TREASURY AND FRB

SUMMARY. TREASATT SPOKE WITH BOI DIRECTOR GENERAL OSSOLA ON JANUARY 19. OSSOLA WAS SOMEWHAT PREOCCUPIED WITH ITALY'S 1976 BALANCE OF PAYMENTS FINANCING PROBLEM. END SUMMARY.

1. OSSOLA SAID THAT BANK OF ITALY PRESENTLY ESTIMATES ITALIAN CURRENT ACCOUNT DEFICIT FOR 1976 AT ABOUT 1,000 BILLION LIRE (\$1.5 BILLION). HOWEVER, IF POLITICAL CRISIS CONTINUES AND LEADS TO LARGE-SCALE CAPITAL FLIGHT OR IF
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ECONOMIC RECOVERY CAUSES SHARP INCREASE IN IMPORTS, OVER-

ALL DEFICIT COULD BE AS MUCH AS 2,500 BILLION LIRE (\$3.7 BILLION). DECLINE IN OFFICIAL RESERVES IN NOVEMBER AND DECEMBER WAS QUITE LARGE (ABOUT \$970 MILLION) AND INTERVENTION HAS BEEN VERY HEAVY IN JANUARY FOLLOWING FALL OF GOVERNMENT (\$313 MILLION FROM JANUARY 1 THROUGH JANUARY 15).

2. CONSEQUENTLY, BOI IS NOW ACTIVELY EXPLORING SOURCES OF FINANCING OF PRESUMED 1976 DEFICIT. IT HAS BEEN IN TOUCH WITH FEDERAL RESERVE ABOUT \$500 MILLION DRAWING ON EXISTING \$3M BILLION SWAP. ALSO, DURING WEEK OF JANUARY 19-23 BOI AND TREASURY OFFICIALS WILL BE IN WASHINGTON TO DISCUSS POSSIBLE ADDITIONAL IMF DRAWING UNDER EXPANDED DRAWING RIGHTS ARRANGEMENTS AGREED TO AT JAMAICA. IN ADDITION, BOI HAS RECEIVED ASSURANCES FROM GERMAN BUNDESBANK THAT, NOT ONLY WOULD \$1.5 BILLION GOLD LOAN STILL OUTSTANDING NOT HAVE TO BE PAID IN 1976, BUT AMOUNT OUTSTANDING COULD BE INCREASED TO \$2 BILLION (AMOUNT OF ORIGINAL LOAN). ON OTHER HAND, PROSPECTS OF OBTAINING MEDIUM-TERM FINANCING FROM EUROMARKET DID NOT LOOK GOOD, AT LEAST FOR SHORT TERM, PARTICULARLY AS LONG AS COMPTROLLER OF CURRENCY CONTINUES TO CLASSIFY US BANKS' LOANS TO ITALIAN BORROWERS.VOLPE

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